IMPLICATIONS OF COMMON MARKET MEMBERSHIP FOR BRITISH AGRICULTURE

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SUMMARY

If the United Kingdom becomes a member of the European Economic Community, British agricultural policies will need to be brought into conformity with the EEC's Common Agricultural Policy. Acceptance by Britain of the EEC's agricultural policies would have broad implications for farm incomes, balance of payments, and food costs in the United Kingdom. Farm prices would rise, but so would the cost of livestock production. As a result, aggregate net farm income would be about the same with some farmers benefiting and others suffering net income declines. Britain's balance of payments would be adversely affected by the increased cost of imported food and by payments to the European Agricultural Guidance and Guarantee Fund (EAGGF). Estimates of the net cost to the balance of payments would range between $490 and $700 million annually. Costs of domestically produced and imported food would rise about 10-14 percent. This represents an increase in the cost of living of about 2.5 to 3.5 percent.

A number of studies have been completed recently on the implications for British agriculture of membership in the European Economic Community. Although the various sources differ in many details, there is a considerable consensus on the broad implications of Community membership for agriculture in the United Kingdom.

This paper, based on the results of these studies, examines some of the main implications of EEC membership for British agriculture, the cost of food, and the United Kingdom's balance of payments. Differences in conclusions of the various

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studies are largely due to differences in basic assumptions. Generally, each study started with the assumption that the EEC agricultural support system, including the financing of EAGGF, would be immediately applied to Britain either without changes or, where this was theoretically impossible, with a minimum of changes. One of the obvious purposes of this assumption was to determine what changes and transitional arrangements would be desirable as a basis for bargaining during negotiations.

BACKGROUND

On November 10, 1966, Prime Minister Wilson announced to the House of Commons that a new effort would be made to evaluate the conditions for British entry to the European Economic Community. On May 2, 1967, after months of debate, Prime Minister Wilson announced to the House of Commons, "Her Majesty's Government has today decided to make an application under Article 237 of the Treaty of Rome for membership of the European Economic Community and parallel applications for membership of the European Coal and Steel Community and Euratom." The decision was then approved in Parliament by a vote of 488 to 62. Formal application was submitted to the Commission of the European Economic Community at Brussels on May 11.

The May bid touched off a series of position statements by Community members. Most notable was de Gaulle's statement at a May 16 press conference in which he set forth a number of critical problem areas which would need to be resolved before U.K. membership could be seriously considered. Key officials of other EEC countries also made public their positions on U.K. membership.

On July 4, Britain received a hearing at the Ministerial Meeting of the Western European Union (WEU), an organization in which EEC countries and Britain share membership. The Ministers of the WEU countries (excluding France) received a 4,000-word statement by Foreign Secretary George Brown on the British case for membership in the EEC. At the same time, Jean Rey, new President of the EEC Commission, was charged with the responsibility of preparing a report on the British application for membership.

Rey has urged that negotiations with the British begin as soon as possible. The Council of Ministers first discussed British membership at the October 23-24 meeting. On November 18, Britain announced devaluation of the pound sterling and further uncertainty resulted in the possibility of British-EEC talks. 1/ In the meeting of the Council of Ministers on December 18, France blocked the opening of negotiations on the membership applications of the United Kingdom, Ireland, Denmark, and Norway. The five other member States agreed with the conclusion of the Commission report to open negotiations. Actual negotiations between the British and the EEC have not yet occurred.

1/ Analysis and monetary conversions in this bulletin were made before the devaluation occurred; conversions based on the pound sterling equal to $2.80.

EEC VERSUS U.K. POLICY

The EEC's Common Agricultural Policy, which is now complete at least in its broad formulation, contrasts sharply with Britain's agricultural policy. Three basic differences in these policies are expected to affect farm incomes, balance of payments, and food costs in the United Kingdom. Principal differences are as follows:

Producer returns.--Under Community arrangements, producer returns depend on price support measures which are effected by means of variable import levies, import tariffs, domestic support buying, and export subsidies. As a result, the Community is a highly protected market. Access to the British market is much freer. Generally, domestically produced commodities sell at prices closer to world levels. Farm receipts from the market are supplemented by a deficiency payments system which brings producer prices for a given quantity up to a guaranteed level.

Method of support.--Under the EEC system the main cost is borne directly by the consumer through higher market prices. In Britain, the cost is largely borne by the taxpayer. Generally speaking, the British consumer pays lower prices, and the taxpayer makes up the difference between world prices and guaranteed prices. Direct grants to certain producers provide an additional subsidy.

Type of control placed on imports.--Generally, the EEC maintains a managed market on imports whereas the U.K. system allows suppliers freer access. This of course does not mean the EEC is a managed market for all agricultural imports nor does it mean that the United Kingdom does not maintain some restrictions on agricultural imports.

IMPLICATIONS FOR BRITISH AGRICULTURE

Impact on Farm Income

The Government White Paper (6) 2/ points out that any assessment of the overall effect of Britain's joining the Common Market must be speculative. Under the assumptions of the Paper, total farm revenue is expected to be considerably higher, but so are producer costs (one-third of which are for feedstuffs). Aggregate net farm income might be roughly the same but the distribution of net income would change. Beef producers, possibly sheep farmers, and especially cereal growers would benefit. On the other hand, dairy, hog, and poultry farmers (and sections of the horticultural industry) would suffer net income declines. Farmers in hill country and other marginal farming areas would be faced with the additional prospect that government grants aimed

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2/ Underscored numbers in parentheses refer to items in the Selected References, p. 9 .

at helping such areas might have to be terminated. Consequently, their net income position may depend on whether some comparable assistance could be provided under EEC policies. One possible source of direct assistance would be under the Guidance section of EAGGF.

Under EEC policies, a changed price and income situation would cause some types of farming to expand and others to contract. The following paragraphs detail--by commodity--some of the adjustments expected if the United Kingdom were to become a member of the EEC. Unless otherwise noted, comments are those of the White Paper.

Cereals.--Cereals account for approximately 12 percent of gross farm receipts in the United Kingdom. All studies on U.K. accession to the EEC expect profitability of cereal production to increase. The Government's White Paper, assuming that the grain intervention price at Rotterdam would apply to Britain (with adjustments for transportation charges from farms and seasonal price changes), notes that this represents an increase in the price of wheat from $69.86 per metric ton to $97.83. Barley prices would rise from $67.51 per metric ton to $84.05. The National Farmers Union (NFU) estimates slightly higher grain prices, with seasonal averages of $96.45-$99.21 per ton for wheat and $82.67-$85.43 per ton for barley. Increases of this magnitude would stimulate production. 3/

Higher cereal prices would also increase livestock production costs. The NFU estimates that higher feed prices might increase the cost of producing milk by 3 cents to 4 cents per gallon, pork by about $5.00 per cwt. liveweight, eggs by about 7 cents per dozen, broilers by over 3 cents per pound liveweight, and beef by about $1.25 per cwt. liveweight. Actual changes in production costs would depend on the rations used after economical feed substitution possibilities were exhausted. 4/

Beef cattle.--The EEC system of common external tariffs and guide prices (supported by import price regulations and support buying and export refunds) would be expected to increase U.K. cattle prices, thus increasing profitability and production. But any expansion in output must be viewed cautiously because of four factors. First,

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3/ On October 26, 1967, the EEC Council of Ministers agreed to higher barley, maize, rye, and beef and veal prices for the marketing year 1967/68. With the new prices, cereal production would continue to expand. Increased beef prices should help producers defray rising cereal feed costs and induce additional production. Cost and price estimates in this paper do not reflect the October price adjustments.

4/ NFU estimates of increased feed costs may be slightly high since its estimates of U.K. grain prices under EEC membership are above those of the White Paper. NFU feed cost estimates are based on Common Market prices established before October 1967.

higher feed costs would tend to reduce net profits. Second, increased cereal acreages would compete with grass acreages previously used for beef production. Third, a substantial portion of beef production comes from the dairy herd, the size of which depends upon the profitability of dairying. Fourth, part of the United Kingdom's beef production is from store (feeder) cattle imported from the Irish Republic. If the United Kingdom should join the Common Market, access of Irish store cattle to the British market might be limited. On the other hand, if Ireland also joined the Community, the U.K. market might offer little more attraction than the markets of some other member States.

The NFU notes that higher net returns to U.K. beef producers would be possible in the EEC. However, the NFU also contends that production increases would be less than under the present British system. Since EEC market prices fluctuate more than guaranteed prices, NFU officials feel that producers are not likely to undertake the investments necessary for maximum expansion.

Milk and milk products.--Milk and milk products account for nearly one-fourth of gross farm receipts in the United Kingdom. Under the EEC system, output of milk in the United Kingdom would be expected to fall. If the U.K. average price was compared to the EEC target price of 39 cents per gallon, it would represent a reduction of about 1 cent per gallon. As it stands, rising production costs (increased cereal costs) would reduce profitability, thus causing output to fall.

Indications are that the reduced profitability of milk production could lead to winter shortages of milk for fluid consumption. The problem would arise from adoption of the EEC's dairy support system--where three-fourths of the milk sold is used in manufacturing--by the United Kingdom where 70 percent of production is consumed as fluid milk.

Hogs.--Since the single market stage and target prices had not been introduced when the White Paper was prepared, few conclusions were reached. The following recent comparison of prices and costs under the two systems offers some basis for analyzing probable developments.

On July 1, 1967, the EEC established a single market for pork with a target price of $24.50 per cwt., liveweight. Government agencies are required to intervene in the market if the price of pork falls to 85-92 percent of the target price. NFU estimates the higher cereal prices will raise pork production costs by approximately $5 per cwt., liveweight. Assuming the EEC price of pork is 92 percent of the target level, British farm prices would be approximately $22.54 per cwt., liveweight. The 1967/68 guaranteed price for pork in the United Kingdom is about $25 per cwt. liveweight. At intervention prices, net returns from U.K. pork production would be less. Although EEC prices are expected to be above intervention levels, average net returns are likely to be less for U.K. pork producers.

Eggs and poultry.--The NFU estimates that with U.K. egg prices remaining at much the same level under EEC membership--a conclusion in the White Paper--increased feeding costs and loss of the price guarantee would lead to a fall in producer incomes of more than 14 cents per dozen eggs. The White Paper itself concludes that profitability would be lower in the entire poultry sector and that production in the United Kingdom would be increasingly concentrated in the hands of large-scale producers.

Horticulture.--The effects of adapting the United Kingdom's system to the EEC's for horticultural products would stem mostly from increased competition from current EEC members. In general, this increased competition would tend to reduce profitability and curtail U.K. production. The same effect holds for nonedible as well as edible horticultural produce.

Sugarbeets.--The profitability of sugarbeet production in the United Kingdom would increase at EEC price levels. The overall effects, however, as emphasized by the NFU would depend on the actual production quota set for the United Kingdom. Equally important is the nature of arrangements regarding the Commonwealth Sugar Agreement, under which two-thirds of Britain's sugar requirement is imported.

Potatoes.--Membership in the EEC would result in a higher level of protection for domestic producers. However, average prices in the EEC are lower than in the United Kingdom and profitability might decrease.

Output in 1975

In a long-range supply and demand report prepared by G. T. Jones (4), output of selected commodities has been projected to 1975 for the United Kingdom. Jones supplies production projections for each of three different assumptions: (1) continuation of present U.K. policies with some reduction in deficiency payments, (2) a switch from deficiency payments to tariff support measures, and (3) a policy which might result from successful negotiations with the EEC. These projections, shown in Table 1, are not intended to quantify output specifically but to provide directional estimates.

Jones agrees with the White Paper's expected movement in grain areas and sees a substantial expansion in production occurring by 1975. At the same time a trend toward reduction in farm numbers should occur.

Jones disagrees with the White Paper on the effect U.K. membership in the EEC would have on milk production. He expects milk output to rise under any of the three assumptions, although the increase would be less under EEC membership than if present national policies were continued. Beef output will also rise, according to Jones, but he also notes that expanding grain production will compete with beef and milk output.

Other projections by Jones show production of pork and bacon, poultry meat, eggs, sugar, and potatoes trending up by 1975.

Table 1.--Projections of U. K. production of selected agricultural products to 1975

Item	Unit	Average 1959-63	Projections to 1975: With continuation of present policies	With tariff support	With membership in EEC
Cereals	1,000 m.t.	9,549	15,215	14,933	16,271
Beef cattle	Do.	864	1,009	1,033	983
Milk	Mil. gal. (U.S.)	1,927	2,526	2,507	2,443
Mutton and lamb	1,000 m.t.	249	300	290	273
Pork and bacon	Do.	685	898	835	821
Poultry meat	Do.	319	546	550	567
Eggs	Mil. doz.	1,073	1,391	1,363	1,336
Horticulture	Mil. dol.	456	529	529	512
Sugar	1,000 m.t.	773	957	957	957
Potatoes	Do.	4,329	4,516	4,532	4,394

Source: Jones, G. T. (4).

Horticultural production in the United Kingdom would be adversely affected under Community membership. Both Jones and the White Paper are in agreement on this, although Jones has indicated that the value of production would increase by 1975.

THE BALANCE OF PAYMENTS AND CONSUMER FOOD COSTS

There is general agreement among the studies that agricultural income per se will not be a primary consideration in U.K. membership negotiations. Prime Minister Wilson, speaking to the Labour Party on April 27, 1967, and T. Kempinski (5) agree that it is the financing of EAGGF and its impact on the balance of payments which would present the greatest problem. On the other hand, G. B. Redmayne (12) sees the increased food costs as the main problem area. Perhaps this difference of opinion is one of emphasis; in the first case the focus is on economic aspects while in the second case the focus is on political aspects. There is no question, however, that these are two main problem areas.

The strain on the British balance of payments which would result from joining the EEC stems essentially from two main sources, both derived from Britain's position as the world's largest food importer. First, many British imports from third countries (that is, non-EEC countries) would be subject to a variable import levy. Ninety percent of this levy would be paid into the EAGGF, which would be largely used to finance intervention buying and export subsidies in other member nation. Second, British

imports from other EEC countries would be at the full EEC price, whereas the U.K. trade balance now benefits from lower worldprices. There is less concern about capital outflow to the current EEC countries as this movement would tend to be offset by opposite flows. The net cost to the British balance of payments, after any transitional period, has been estimated to be $490 and $700 million annually by the White Paper and the NFU, respectively, and the arithmetic average of these two by T. K. Warley (13).

If Britain joins the EEC, the cost of food will rise. However the extent of this rise is still quite controversial. Assuming that world prices continued at existing levels, and that the EEC's common prices remain unchanged, the White Paper estimates that consumer food cost would rise between 10 and 14 percent, the equivalent of a 2.5 to 3.5 percent increase in the cost of living. This assessment takes into account the probability that some food prices--for example, a number of fruit and vegetable items--might be lower in the Common Market. However, for most foodstuffs--particularly certain basic foodstuffs such as mutton and lamb, beef, pork, eggs, sugar, food grains, and butter--prices would be higher. The food cost estimate also allows for some change in the pattern of consumption with the substitution of cheaper foods for more expensive ones.

Kempinski estimates that under certain conditions consumers' total expenditure on home-produced food could be $940 million greater than present food costs--equivalent to a 6-percent increase in consumers' total expenditure on all food. Kempinski's analysis, however, does not take into consideration changing production and consumption patterns brought about by price changes. Nor does the analysis include the increased cost of imported food. On the other hand, Kempinski does adjust his initial estimate by including tax reductions made possible by the change in the system of agricultural supports. He estimates that under EEC policies a saving of $654 million would accrue to the U.K. taxpayer. Thus, Kempinski's final estimate of the increase in cost of home-produced food amounts to 1.6 percent of expenditures (1964 data) by the private sector on all consumer goods and services.

Warley's analysis of the impact on living costs of EEC membership follows a different route. He attempts to answer the question: For the year 1970, what would have been the effect on the cost of living had Britain joined the Community in 1963 and made an immediate start in adopting its agricultural policies now effective? Accounting for changing patterns of consumption and production, and using various assumptions, Warley concludes that the rise in the current retail price index would be between 2.5 and 3 percent. However, if tax savings on items entering the cost-of-living index are considered, the rise in the retail price index would be reduced to 1.5 percent.

The NFU inserts a note of pessimism concerning food costs. Generally it concedes that a rise in consumer prices would be partially offset through a saving to the Exchequer in the costs of the agricultural support system. However, the NFU believes that consumers should not rely on any reduction in the incidence of taxation because it is likely the Exchequer would be required to continue making payments to the EAGGF.

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